

**REPORT ON
PRICE TREND ANALYSIS
OF EXEMPT COMMERCIAL ITEMS**



FY 2002

**Furnished in Response to
Subsection 803(c), as Amended, of the
Strom Thurmond National Defense Authorization Act
For Fiscal Year 1999
(Public Law 105-261)**

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BACKGROUND

Section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year (FY) 1999 (Public Law 105-261; 112 Stat. 2082; 10 U.S.C. 2036a note) required the Secretary of Defense to develop and implement procedures that provide for the collection and analysis of information on price trends for categories of commercial items. Per the statute, categories of items should be in a single Federal Supply Group (FSG) or Federal Supply Class (FSC), provided by a single contractor, or otherwise logically grouped for the purpose of analyzing information on price trends. Price trend analysis is to be performed where there is a potential that prices paid will be significantly higher (on a percentage basis) than the prices previously paid in procurements of the same or similar items for the Department of Defense (DoD). The statute further directed that the head of a DoD agency or the Secretary of a Military Department take appropriate action to address any unreasonable escalation in prices being paid for items procured by that agency or Military Department, as identified by the price trend analysis. Finally, Section 803(c) required the submittal of an annual report to Congress by April 1, 2000, with follow-up reports annually by April 1 of 2001 and 2002. The reports were to address the price trend analyses conducted during the preceding fiscal year, and describe actions taken by agency heads and the Secretaries of Military Departments to identify and address unreasonable price escalation revealed by the trend analyses.

The Director, Defense Procurement and Acquisition Policy established a working group to assemble price trend analysis input from the Defense Logistics Agency (DLA) and the Military Departments (MILDEPS). The working group requested DLA and the MILDEPS to 1) identify parts or categories of parts selected for study, including the criteria and methods used for selecting those parts; 2) review price trend analyses completed for parts or categories of parts selected for study; and 3) describe actions taken or policies issued by their organization to address unreasonable price escalation. Subsequently, three annual reports were developed and provided in accordance with this requirement.

In FY03, the requirements of Section 803(c) were amended to extend the reporting requirement for an additional four years (Section 823 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (P.L. 107-314). This consolidates the information submitted to the Director, Defense Procurement and Acquisition Policy, by DLA and the MILDEPS for the purpose of inclusion in the fourth annual report.



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010

NOV - 1 2004

The Honorable Duncan L. Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

The enclosed Department of Defense (DoD) report on price trend analysis of exempt commercial items is provided in response to section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261). Section 803(c) requires DoD to perform price trend analysis on categories of certain commercial items in a single Federal Supply Group or Federal Supply Class, provided by a single contractor, or otherwise logically grouped for the purpose of analyzing information on price trends. In addition, section 803(c) provides that items selected for analysis should be those for which there is a potential for the price paid to be significantly higher (on a percentage basis) than prices previously paid in procurements of the same or similar items for DoD.

Most of DoD's price trend analysis is performed by the Defense Logistics Agency (DLA), which has procurement responsibility for most of the commercial consumable items bought by DoD. DLA experienced an average material cost growth rate of 1.73 percent, compounded per year since Fiscal Year (FY) 1993, for approximately 350,000 stock numbered commercial items over a ten year period (FY93-02). This average falls between comparable Producer Price Index and Consumer Price Index average growth rates of 1.25 percent and 2.52 percent, respectively.

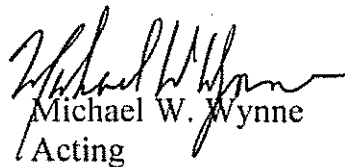
DLA's price history database represents the core knowledge base for future DoD price trend analysis efforts. DLA has applied lessons learned from performing the price trend analyses directed by section 803(c) to initiate development of automated information technology tools to assist buyers in evaluating price reasonableness of offered prices. Moreover, the purchase history of items managed by the Military Departments (MILDEPS) is included in DLA's comprehensive procurement history to enhance the effectiveness of its analytical tools. Accordingly, following implementation for DLA usage, DLA plans to make these tools available to the MILDEPS for their testing and usage consideration.



For this report, the MILDEPS examined price histories of individual items to determine whether recent prices are consistent with prior prices paid, and use these reviews to improve the training of their contracting professionals in the pricing of commercial items. However, significant variables affecting the pricing of individual buys, such as urgency, obsolescence, availability, and quantity variations, made it difficult to draw any statistically valid general conclusions about price trends.

A similar letter is being sent to the Chairman of the Committee on Armed Services of the Senate.

Sincerely,


Michael W. Wynne
Acting

Enclosure:

As stated

cc:

The Honorable Ike Skelton
Ranking Member

Consistent with the first three annual DoD reports, DLA analyzed commercial item price trends by Inventory Control Point (ICP)/Commodity and by competitive and Consumable Item Transfer (CIT) status. DLA compared their price trends in these different categories to trends in price indices from the Bureau of Labor Statistics. These approaches were in accord with the statutory direction that prices be reviewed for categories of items logically grouped for the purpose of analyzing information on price trends. DLA's analyses pursuant to the Section 803(c) study requirement are part of DLA's overall effort to monitor price changes in order to prevent excessive increases in customer prices.

During the fourth study year, DLA updated summary data from the previous three study years. It measured material cost movement on a population of 348,398 stock-numbered commercial items (consumables, clothing & textile and medical), and broke out the expenditures, and computed the cost movement for, the subset of noncompetitive commercial items. In contrast with DLA, the MILDEPS have pursued different strategies for identifying exempt commercial items they continue to buy that they believe could be at risk for unusual or unexplained price escalation. The Army reviewed the price history of 45 contract actions that were awarded in FY 2002 using Federal Acquisition Resolution (FAR) Part 12 procedures. These 45 procurements were considered to be at risk for unusual escalation because they were purchased on a sole-source or on a competitive, but only one bid received, basis. The Navy sampled its procurement database to identify FSCs that figure prominently in its commercial spares procurements, while the Air Force developed the Contracting Business Intelligence System (CBIS) to analyze its price trend data.

To identify sole-source commercial items, the MILDEPS screened the DoD database of DD Form 350 Individual Contracting Action Reports (DD350). This database compiles procurement data on contract actions over \$25,000. The extent of that screening is described later in this report.

1. PRICE TREND ANALYSIS

(A) Defense Logistics Agency

i. Methodology.

Excluding Subsistence and Fuel items, DLA managed slightly over 3.6 million stock-numbered items at the end of FY02, of which about two-thirds (2.4 million) were considered commercially available to the general public. All Medical items and Clothing

and Textile (C&T) items were considered commercial for purposes of DLA's price trend study effort. The commerciality of Hardware items was determined through probability assessments from an upgraded version, known as COTSNet (Commercial Off The Shelf Net), of the former On-Demand Manufacturing (ODM) neural network model previously developed on behalf of DLA, and used in developing DLA's previous years' 803(c) study results.

In its continuing review of price trends, DLA measured material cost movements involving over 348,000 commercial items. The population period for identifying the commercial items to be tracked in DLA's first year study (FY96 through FY98) was retained for all succeeding studies, to enable comparability of study results. Approximately 708,000 different stock-numbered items, both commercial and non-commercial, were purchased during this three-year time frame, of which 348,398 remained for cost measurement purposes, after exclusion of noncommercial items and due to the use of various filters and data processing procedures.

DLA has continued to calculate Material Cost Index (MCI) numbers to measure DLA materiel cost trends. The Fisher Ideal index formula was again used because it is not biased, is very accurate, and is currently used by the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis. The chained-base comparison approach was used to show cost movement over time because it was able to measure more items and be more representative of the current market place than any other approach investigated. Thus, the Fisher Ideal index formula, coupled with the chained-base comparison technique, was used to measure materiel cost growth for DLA commercial items.

The procurement data available for use in measuring DLA's material cost growth cannot be normalized to enable exact price trend measurement because many of the variables that influence price were not recorded. DLA's procurement data reflect the types of goods it typically buys and the various methods it typically uses. These include emergency purchases; different contracting methods used to buy the same item; varying quantity purchases, sometimes extreme, for the same item; and different price breaks for the same item over time. Since the impact of such factors has not been quantified, normalization to eliminate the impact of these differences has not been accomplished. Accordingly, index calculations using DLA data depict changes in material cost, which include the impact of any changes in buying practices, quantities, and price breaks between time periods.

ii. Summary Results.

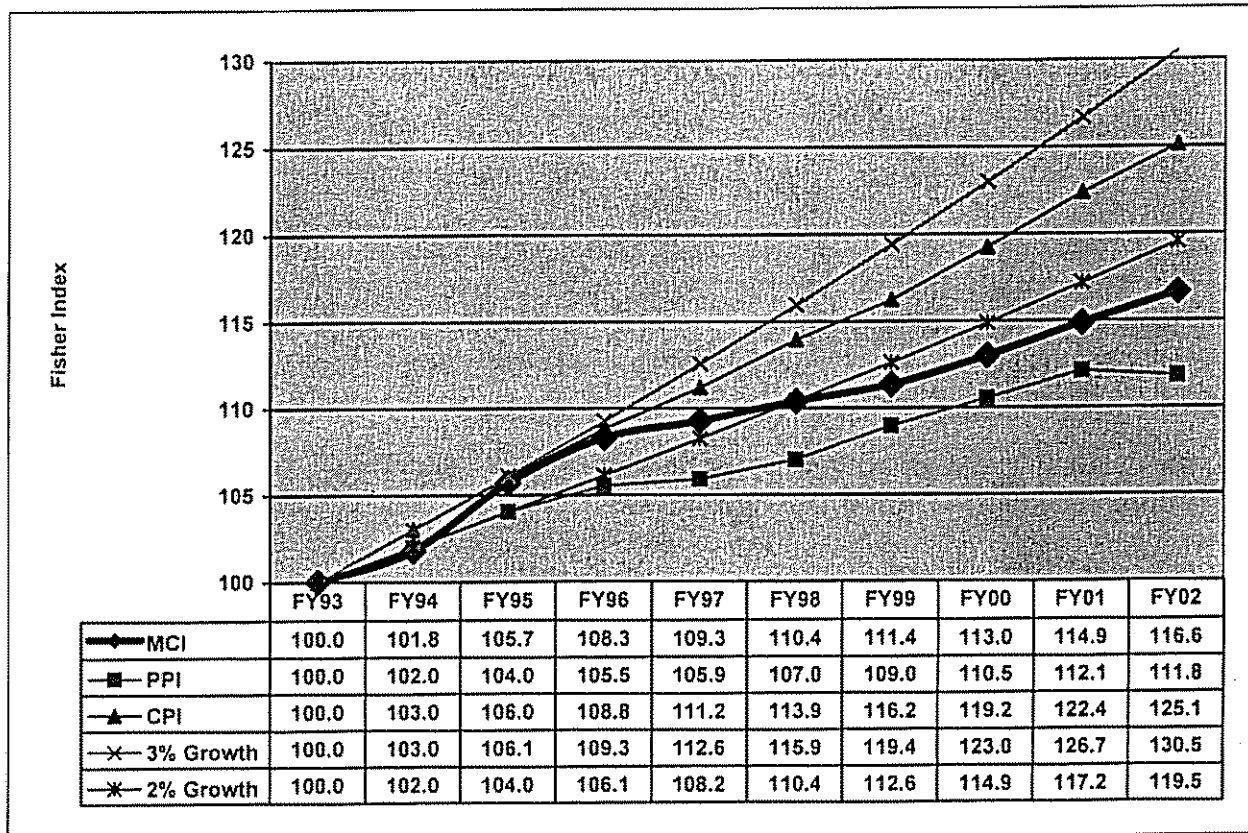
Material cost movement was measured on the commercial population of 348,398 NIINs (National Item Identification Number) representing \$5,144.7 million from the population period. From FY93 to FY02, the maximum number of NIINs compared between adjacent FYs was 282,551 for FY95 and FY96 and the least number of evaluations was 121,856 for FY01 and FY02.

The following discussion of DLA's materiel cost movements proceeds from the highest to the lowest level of aggregation. First, the MCI trend and annual growth charts for all DLA commercial items are presented. Next, the MCI trends are examined at the competitive and noncompetitive levels. Finally, the noncompetitive items are further evaluated at the CIT and ICP/Commodity levels.

a. DLA Commercial Cost Trends.

Spanning the ten-year period from FY93 to FY02, Figure 1 (below) compares the annual cost movement of DLA's 348,398 stock-numbered, commercial items as identified using the new (COTSNet) model, against four benchmarks. Benchmarks include an overall Consumer Price Index (CPI), a similar, top-level Producer Price Index (PPI) and two constant growth lines of two and three percent:

Figure 1. DLA's Commercial Cost Movement versus Price Growth Benchmarks

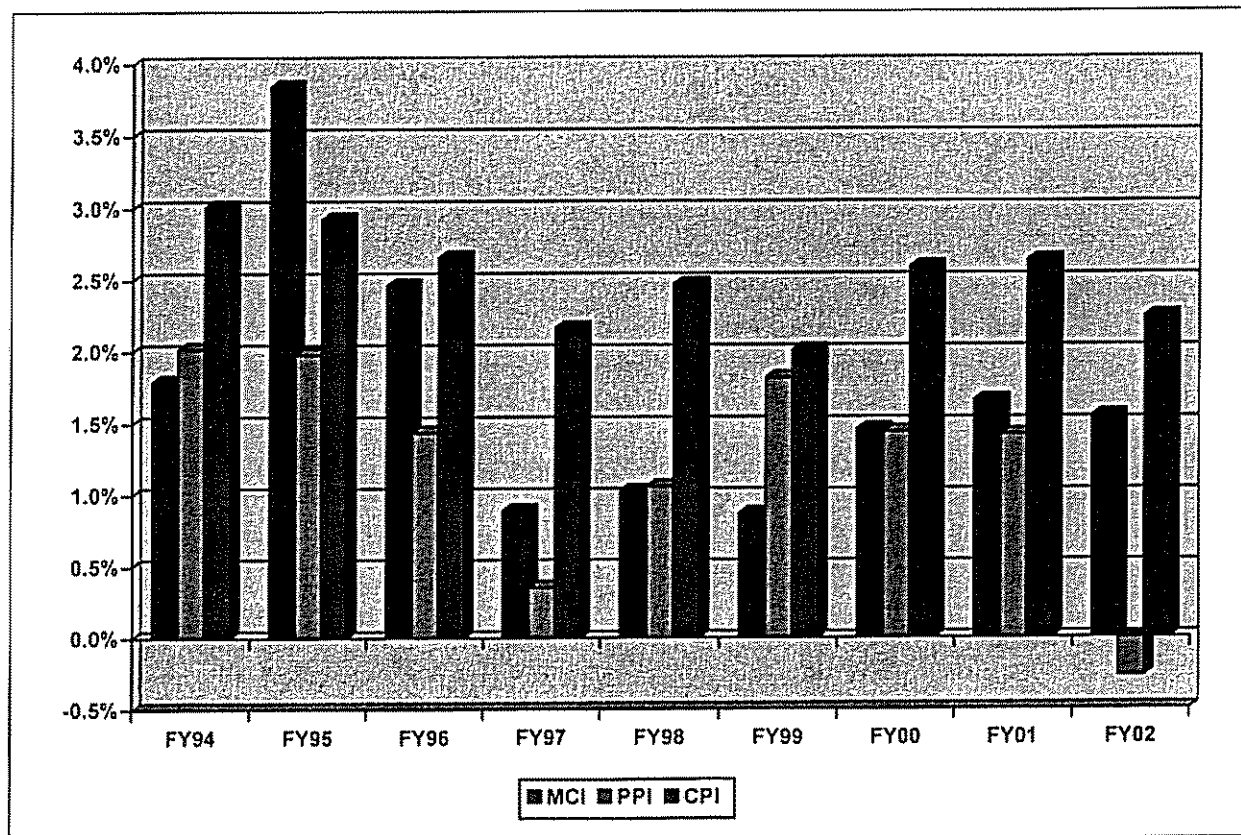


Note: Benchmarks include the CPI-U/Less Food and Energy (Unadjusted) - CUUR0000SA0L1E and the PPI Finished Goods/Less Food and Energy (Unadjusted) - WPUSOP3500.

The cost movement of DLA's commercial items as determined by COTSNet continues to compare favorably with the standard benchmarks, as was the case using the previous network system (ODM). DLA's MCI trend is 116.6 over the ten-year span, well below the two percent growth line. Of the four benchmarks, only the PPI showed lower price growth. DLA's overall growth of 16.6% equates to an average annual growth rate (compounded) of 1.73%. Comparatively, the CPI and PPI compounded growth averages were 2.52% and 1.25%, respectively.

DLA's cost movement has slowed over the past few years. Figure 2 (below) shows DLA's highest annual growth was slightly over 3.8% for FY95. However, since FY95, DLA's yearly growth rate declined to, at most, 1.03% over the next three years before increasing to between 1.46% and 1.66% over the most recent three years. These lower annual rates equate to an average annual growth rate of 1.24% over those six years. Comparatively, the PPI and CPI have averaged an annual growth rate of 0.97% and 2.35%, respectively, over the same period.

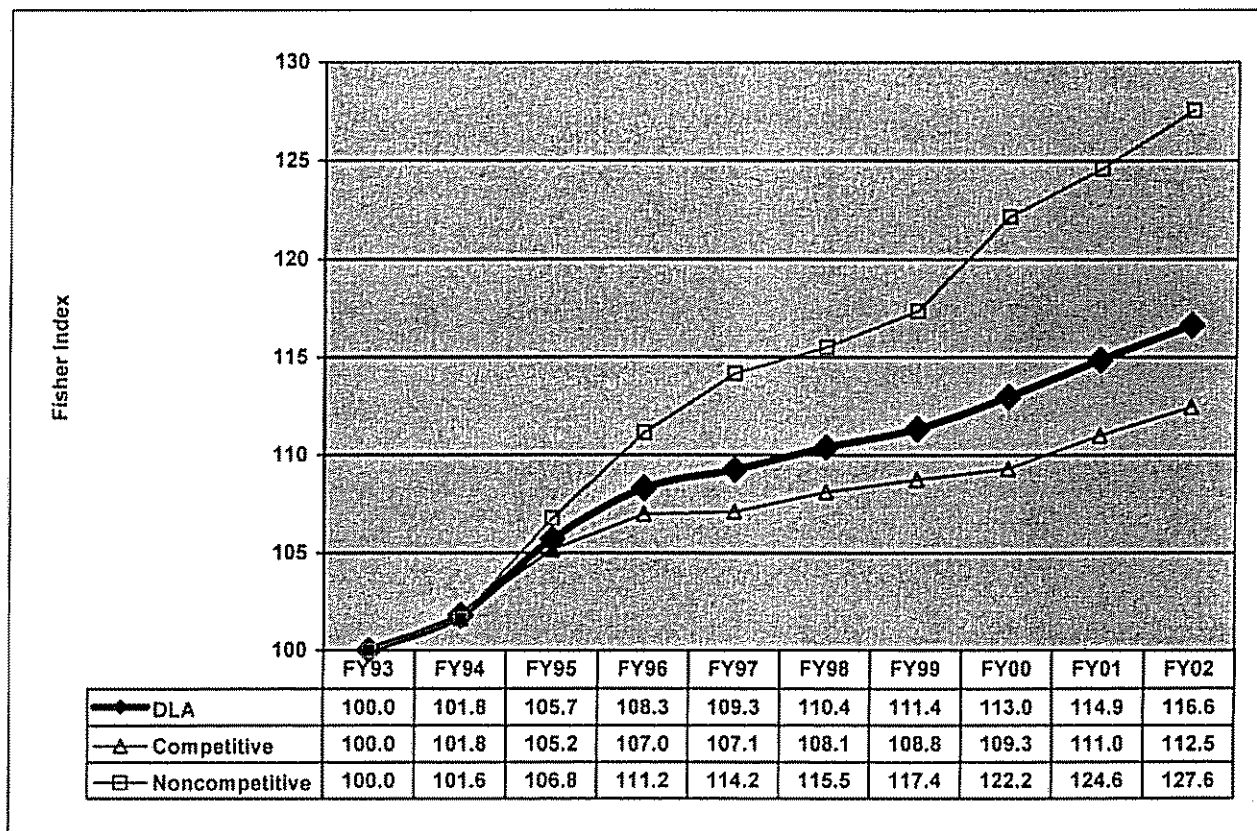
Figure 2. Annual Growth Rate Comparisons between DLA's Commercial MCI, the PPI, and the CPI



b. Competitive/Noncompetitive Subsets (Commercial Items).

DLA's commercial cost movement was further evaluated at lower levels of aggregation - competitive status, CIT status and ICP/Commodity. At the competition level, the most recent acquisition method code (AMC) for each item was used to subdivide the stock-numbered items into competitive (AMCs 1 and 2) and noncompetitive (AMCs 3 through 5) subgroups. The following DLA-level rollup (Figure 3) resulted:

Figure 3. Separate Competitive/Noncompetitive Cost Movement Performances



For DLA's commercial items, the cost movement of the competitive portion is less than half that of the noncompetitive segment. Figure 3 (above) shows the competitive and noncompetitive subsets of DLA's commercial MCI trend, which is also included as a reference line. DLA's competitive subset experienced 12.5% growth from FY93 through FY02 while the cost movement for DLA's noncompetitive group grew at 27.6%, over twice as much.

The cost movements for DLA's competitive and noncompetitive commercial items are similar to the PPI trend and the three percent constant growth line, respectively. Figure 3 (above) shows that competitive items grew 12.5% from FY93 to FY02 while Figure 1 shows the PPI grew 11.8% over the same period. These trends equate to average annual growth rates of 1.32% and 1.25%, respectively. In addition, Figure 3 shows that noncompetitive items grew 27.6% while Figure 1 shows the constant growth of three percent to be 30.5% from FY93 to FY02. The average annual growth rates for these last two trends equate to 2.75% and 3.0%, respectively.

c. Examination at the CIT Level.

The MILDEPS transferred over 900,000 items to DLA management from FY91 through FY99. In addition, they sent historical procurement data to support the transferred items. Although not as complete as DLA's procurement data, the MILDEPS' procurement data were used to help add CITs to the analysis. However, since the MILDEP data came from systems outside DLA control, inclusion of this data may have adversely influenced the cost movement of some items. Thus, to check for any possible influence, the CITs were removed from the data and the competitive- and noncompetitive- commercial subgroups reevaluated.

CITs were found to influence DLA's cost movement but their effect is relatively small. Table 1 (below) shows the CITs' influence on both the noncompetitive and competitive commercial items. Removing the CITs lowered the overall trend for the noncompetitive items by 3.2 percentage points. From FY93 to FY02, the noncompetitive commercial items showed a 27.6% cost movement with the CITs included but a 24.4% cost movement with the CITs removed. In comparison, the competitive commercial trend also dropped but only by 0.1 percentage points. The delta in dollars obligated when the CITs are included versus excluded is similar between the two commercial subgroups, so the CITs influence the noncompetitive items more than the competitive items. However, with the CITs removed, the cost movement for the noncompetitive items is still nearly twice as much as the competitive items.

Table 1. CIT's Influence

Commercial Group	CITs	NIINs	FY96 - FY98 Obligations (Millions)	FY93 - FY02 Trend	Average Annual Growth Rate
Noncompetitive	Included	208,484	\$1,489.6	127.6	2.75%
	Excluded	193,666	\$1,344.7	124.4	2.46%
Competitive	Included	139,421	\$3,654.4	112.5	1.32%
	Excluded	129,322	\$3,517.0	112.4	1.31%

d. Subgroup Examination at the ICP/Commodity Level.

The following table displays selected statistics for the noncompetitive items by ICP/Commodity. Along with the number of NIINs and population obligations, the overall trends and the average annual growth rates are shown for each ICP/Commodity. In addition, for comparative purposes, the last row shows the statistics for the entire noncompetitive commercial subgroup.

Table 2. Noncompetitive Commercial Statistics by ICP/Commodity

		NIINs	FY96 - FY98 Obligations (Millions)	FY93 - FY02 Trend	Average Annual Growth Rate
DSCC	C	61,091	\$323.3	134.6	3.36%
	E	29,552	\$139.2	130.0	2.98%
DSCR		29,834	\$174.7	130.7	3.03%
DSCP	G&I	69,700	\$373.0	120.2	2.06%
	M	17,905	\$258.7	123.7	2.44%
	C&T	402	\$220.7	127.1	2.72%
All		208,484	\$1,489.6	127.6	2.75%

Table 2 (above) shows that trend disparities between the Commodities for the noncompetitive items. The three commodities at Defense Supply Center Philadelphia (DSCP) show the three lowest growths, while both the Construction and Electronic commodities at Defense Supply Center Columbus (DSCC) and the Defense Supply Center Richmond (DSCR) show the three highest growths.

Although trend disparities exist, the same disparities exist with the competitive commercial subgroup. Table 3 is similar to Table 2 except the statistics are for the competitive commercial items and the trends are generally lower:

Table 3. Competitive Commercial Statistics by ICP/Commodity

		NIINs	FY96 - FY98 Obligations (Millions)	FY93 - FY02 Trend	Average Annual Growth Rate
DSCC	C	18,612	\$189.4	117.3	1.80%
	E	23,591	\$266.9	123.4	2.38%
DSCR		18,510	\$306.9	103.6	0.40%
DSCP	G&I	67,128	\$577.7	101.7	0.19%
	M	2,837	\$163.7	151.9	4.78%
	C&T	8,743	\$2,149.8	112.2	1.29%
All		139,421	\$3,654.4	112.5	1.32%

DLA's overall commercial trend is influenced more by the competitive items. Tables 2 and 3 present the distributions dollars obligated for the competitive and noncompetitive items by ICP/commodity. DLA obligated over twice as much on competitive items compared to noncompetitive items. At \$3.65 billion, over 71% of the commercial obligations were spent on competitive items.

Consequently, the competitive items influenced DLA's overall commercial trend more than the noncompetitive items. The overall commercial trend of 116.6 (Figure 3) lies closer to the competitive trend of 112.5 than to the noncompetitive trend of 127.6.

iii. Conclusions.

DLA's overall commercial MCI reflects a modest growth rate (1.73 percent compounded per year from FY93 through FY02), which continues to fall between the overall PPI and CPI trends (1.25% and 2.52% compounded, respectively). This equates to overall growths from FY93 through FY02 of 16.6 percent for DLA's commercial MCI, vice 11.8 percent for the PPI and 25.1 percent for the CPI. And, DLA's annual growth rates for FY00, FY01 and FY02 were 1.46 percent, 1.66 percent and 1.55 percent respectively, which is much lower than the 3.8 percent and 2.5 percent increases experienced in FY95 and FY96 respectively.

DLA's commercial material cost performance is highly dependent upon their competitive status. The competitive portion of DLA's commercial items experienced material cost growth of only 12.5 percent over the ten-year period, while the growth for the noncompetitive portion was more than double that over the same period (27.6 percent).

The price trend efforts accomplished by DLA's office of Operations Research and Resource Analysis identified some anomalies and opportunities for potential improvements. However, the review did not identify any systemic weaknesses in DLA procurements of noncompetitive commercial consumables.

DLA will refer any unexplained price changes/trends along with any instances or patterns of apparent overpricing to the cognizant, DLA inventory control points for explanation and follow-on actions as appropriate. DLA and the ICPs will also issue guidance and/or conduct training as necessary.

(B) Military Departments

ARMY:

FY 2002, the Army Materiel Command (AMC) awarded 45 contract actions \$ 242,060,332 including options (see enclosures). To

determine if adequate cost/price analyses were performed, AMC reviewed published price lists, procurement history from government and private sector sales, Defense Contract Management Agency and Defense Contract Audit Agency reviews, negotiation documentation, cost analysis of data other than cost and pricing data, and market research analyses that included comparing price increases for the associated commercial sectors.

The Army's analysis revealed that by using FAR Part 12 procedures, the majority of commercial acquisitions were justifiable and in line with price changes in the associated commercial sectors. Six contract awards, marked with an asterisk in the enclosures, used only catalog prices for the basis of fair and reasonable awards. To insure AMC's continued attention to the pricing of commercial items, the Army will continue to employ Procurement Management Review Teams to assess progress in the performance of cost/price analyses. In addition, AMC will re-emphasize the need to perform a quality price analysis for every contract action, and provide a list of courses to enhance the preparation of cost/price analyses for commercial items.

NAVY:

In the initial price trend analysis report, the Navy concentrated on commercial purchases made at the Navy Inventory Control Point (NAVICP) - Philadelphia over the previous three years. NAVICP is the Navy activity with primary responsibility for spare parts acquisition, and was expected to have the largest number of commercial contracts identified. When data from the Directorate for Information Operations and Reports/Procurement Management Reporting System (DIOR/PMRS) databases was pulled for commercial purchases, the results indicated that NAVICP only had 149 commercial contracts. Further investigation of the data indicated that there was a problem with the NAVICP Integrated Technical Item Manager Procurement System (ITIMP) and that the Navy needed to look at data that was coded non-commercial as well.

On December 8, 2000, the Fitting Out and Supply Support Assistance Center (FOSSAC), better known as the "Navy Price Fighters," was requested to perform the Price Trend Analysis that was due to Congress in April 2001. Because of the lengthy review process that was required, the analysis took longer than expected and was not available for reporting until April 2002.

The Navy's planned methodology called for the utilization of the DIOR/PMRS database to identify contract numbers for procurement of commercial items from fiscal years 1991 through

2000. The following filters were then applied to the database to arrive at the applicable population of contracts:

- (a) Navy items only
- (b) Only items with Federal Supply Classification (FSC) < 7000 (leaves out ADP, paints, fuels and clothing items).
- (c) Only commercial items
- (d) Only items with No Certified Cost or Pricing Data (waived or exempted)
- (e) Only items with one offeror.

The number of contracts selected was sufficient to generate a sample large enough to provide a 95% confidence level. A random number generator was used to select the sample contract numbers. A data call was issued to the various buying activities to request national stock numbers (NSNs) and/or part numbers procured under the generated contracts. The NSNs and part numbers were then collated using a statistical confidence sample formula of 95% to arrive at a sample size. A second data call to the buying activities was issued to get price history for the selected NSNs and part numbers. The Navy subsequently used the same methodology used in the DODIG draft audit (D2000CF-0059) of taking prior contract prices for the same item and adjusting those prices for inflation, quantity discounts, and learning curve. The results were then analyzed to determine if there were any trends in the data, as a whole, by FSC, contractor, or Buying Activity.

Accessing the DIOR/PMRS database with the above noted filters resulted in an applicable population of 4,293 contracts. The Navy then applied a statistical formula to arrive at a 95% confidence level, which identified 401 contracts for review. The first data call requesting data from the buying activities for the 401 contracts resulted in a list of 1010 NSNs/part numbers. The application of a 95% confidence statistical formula against the 1010 NSNs/part numbers resulted in a sample size of 287 items. A second data call was issued to the buying activities requesting historical purchasing data on the 287 items. Due to the limitations of the procurement history on some of the 287 items, and the exclusion of some items that were either service or maintenance related or non-definitized, an additional group of 226 usable NSNs taken from NAVICP contracts was selected and incorporated into the base to be analyzed.

As a result of these sampling difficulties, the Navy has refrained from drawing any definitive conclusions from the results of its trend analysis, due mainly to the fact that there was not sufficient individual NSN price history to provide a statistically

sound sample. The Navy qualified its results with an observation that they should be viewed mainly as a starting point for further analysis, because the limitations of the data sample cannot support conclusions that could be considered statistically valid for application to a broader grouping, e.g., an entire FSC.

Notwithstanding this limitation regarding its data, the Navy performed a price trend analysis that compared the sampled procurements in several ways:

- (1) by individual stock number
- (2) by stock numbers purchased before versus after 1996
- (3) by federal stock class.

The first type of comparison was to determine if the prices paid for the individual items were higher (on a percentage basis) than the prices previously paid for procurements of the same item. The second type of comparison was made to determine if price trends were noticeable as a result of changes in procurement law pertaining to commercial items that occurred in 1996 (i.e., the Clinger-Cohen Act). The third comparison was an attempt to determine if there are any pricing trends for categories of (or logical groupings of) exempt commercial items (which is defined as a commercial item that is exempt from the requirements for submission of cost or pricing data). The Navy employed three different modeling approaches to accomplish these three comparisons.

The results of the Navy modeling efforts indicate that, while some items experienced unexplained price escalation, indicating that some items may have been overpriced, the most recent buys generally indicate a price reduction from the immediate previous buys. While the Navy's modeling could not provide specific reasons for these reductions, one possible explanation offered by the Navy was that Contracting Officers have become more effective and experienced with price analysis techniques when applied to the pricing of commercial items. Other factors that may have affected commercial prices are urgency, obsolescence, availability, and reduced quantities.

The Navy's FSC comparisons pointed to several possible areas that need further investigation. In particular, the group/class representing "Nuclear Reactors" and "Converters, Electrical, Nonrotating" had identifiable escalation beyond the normal increases due to inflation. Some of the most evident increases were noted in NATO stock numbered items. Of the 46 FSCs reviewed, the composite sample data for 11 FSCs showed price growth beyond what would be explainable by inflation alone:

- 1560 - Airframe Structural Components
- 2620 - Tires & Tubes, Pneumatic, Aircraft
- 2835 - Gas Turbines & Jet Engines, except Aircraft & Components
- 2840 - Gas Turbines & Jet Engines, Aircraft & Components
- 4470 - Nuclear Reactors
- 4820 - Non-Powered Valves
- 5330 - Packing and Gasket Materials
- 5845 - Underwater Sound Equipment
- 5998 - Electrical and Electrical Assemblies, Boards, Cards
- 5999 - Miscellaneous Electrical & Electronic Components
- 6130 - Converters, electric, Non-rotating

Composite data for one FSC indicated lower-than-expected price growth:

6150 - Miscellaneous Electrical Power & Distribution Equipment

The Navy will continue to monitor procurements to ensure documentation supports any increase in price and reflects valid determinations that prices are fair and reasonable. With the implementation of the Commercial Items training course and in conjunction with the demonstration testing of the Standard Procurement System the Navy anticipates improvements will be made in the availability of information to support the procurement activities and better track prices. Additional criteria have been added to the internal organization Procurement Performance Measurements Assessment processes, as well as the external Procurement Management Reviews, to check on performance. Although changes are not expected to occur overnight, the processes, training and systems are rapidly being implemented to correct noted deficiencies.

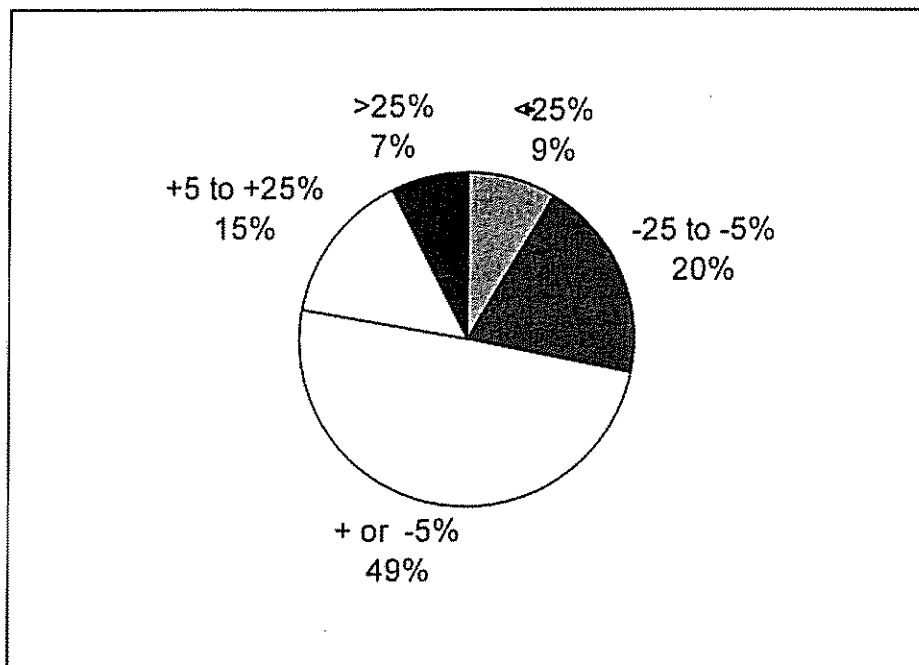
AIR FORCE:

Headquarters, Air Force Materiel Command (HQ AFMC) has developed an improved method of providing the Air Force Price Trend Analysis (PTA) data in response to the requirement for price trend data in the FY 02 Authorization Act. This method uses the new Contracting Business Intelligence System (CBIS). The CBIS system is expected to be available to the field soon. The CBIS database contains several times the number of parts previously available.

Commercial Unit Price-Level Tracking

The overall change in commercial unit prices from FY01 to FY02 was flat with a .2% increase. This is an unadjusted value for inflation.

A more useful breakout is to look at the number of parts that increased by more than 25%, 5% to 25%, + or - 5% (no real change), and decreases. These are graphed as follows:



Price Change Percentage
Percentage of Parts

The Air Force intends to follow-up with the field pricing organizations to find out what caused increases of more than 25% in 7% of the parts. If the results are similar to those of past reviews, part of the increases may be the result of errors or clearly explainable actions (for example an overhauled item and a new manufacture with the same part number but very different process). Other increases may be real and require management actions.

The Air Force will continue to monitor field organizations and commercial trend indicators. The new CBIS system will, when operational, make it possible to watch trends and large price increases as they occur instead of at the end of a year. The field will also be able to watch the same data for their organizations. This is necessary to recognize and preempt potential price-related problems and identify those successes associated with significant variations in commercial price trends.

2. CONCLUSIONS / FUTURE EFFORTS

As previously noted, the preponderance of exempt commercial items are now procured by DLA, which used a price history database of over 348,000 commercial items in the performance of price trend analysis. In contrast, the MILDEPS have been limited by a lack of usable data in their efforts to perform meaningful price trend analysis on categories or logical groupings of commercial items. While the MILDEPS have examined the price histories of individual items in an effort to determine whether recent prices have been consistent with prior prices paid, and have used these reviews to improve the training of their contracting professionals in the pricing of commercial items, significant variables affecting the pricing of individual buys, such as urgency, obsolescence, availability, and quantity variations, have made it difficult for the MILDEPS to draw any statistically valid conclusions about price trends in the larger groupings from which individual price histories have been drawn.

Consequently, the DLA database represents the core knowledge base for future DoD price trend analysis efforts. DLA has applied lessons learned from performing the price trend analyses directed by Section 803(c) to improve an automated tool under development, and to initiate development of two other automated information technology (IT) tools. These tools, to assist buyers in performance of their contract pricing responsibilities, are:

- 1) An automated computer program to assist buyers in evaluating price reasonableness of offered prices for consumable spare parts. This program will evaluate historical unit prices paid for the offered item, if previously purchased; prices for the most comparable items escalated to the planned award date and considered along with the results of regression; a price comparison to the lowest price paid within the year; existence of competitive offers, and other analyses.

- 2) An internet-based program that enables comparison of an offered price to a cumulative price distribution of the latest price paid for each stock numbered item within the same specific Federal Supply Class that have the same approved INC, Unit of Issue, etc.

- 3) An internet-based program for retrieving a comprehensive history DLA has compiled of past procurements of stock-numbered consumables bought by Military and DLA inventory management activities.

Buy history of items managed by the Military Departments (MILDEPS) has been included in the comprehensive procurement history to enhance the effectiveness of the analytical tools cited in 1) and 2) above. This in turn suggests the tools themselves may prove useful for MILDEP buyers of consumables. The MILDEPS manage and procure about one-half million active consumable items across over 8 thousand unique approved INCs that also contain over two and one-half million active consumables bought by DLA's Hardware Centers. All of these items will be covered by the IT tools. Accordingly, following implementation for DLA usage, DLA plans to make these tools available to the MILDEPS for their testing and usage consideration.

FY 2002 PRICE TREND ANALYSIS														
CONTRACT#	ITEM	FY 2002 CONTRACT AWARD			FY 2002 PRICE TREND ANALYSIS			PRICE HISTORY			TREND REMARKS			
		CONTRACTOR	AWARD DATE	QUANTITY	UNIT PRICE	EXTENDED PRICE	AWARD DATE	QUANTITY	UNIT PRICE	EXTENDED PRICE	UP % DII			
DAAH2301D0141	WOODWARD GOVERNOR		19 APR 01	60	\$22,385	\$ 1,343,100	OCT 98	33	\$24,250	\$ 800,250	-1.27%	Utilized Learning Curve, DRI, Prior History, Catalog Price.		
D.O. 0001			8	\$25,500	\$ 204,000	AUG 95	13	\$27,300	\$ 354,900	-12.30%				
			Average Unit Price		\$23,943									
DAAH2302C0080	Nozzle, Assembly Tur	AAR DEFENSE	24 JAN 02	50 to 300	\$4,939	\$ -	28 JUL 98	110	\$4,815	\$ 529,650	2.51%	Utilized Learning Curve(Fair Market Analysis),DRI, Catalog Price with 55% discount, Sales History to other customers, DCMA Audit Report and Price Analysis.		
							JUL 91	340	\$3,595	\$ 1,222,300	37.30%			
DAAH2302C0085	AAR DEFENSE		13 DEC 01	75	\$8,938	\$ 670,350	JUN 00	75	\$8,469	\$ 635,175	5.54%	Utilized Learning Curve(Fair Market Analysis),DRI, Catalog Price, Sales History to other customers, DCMA Audit Report and Price Analysis.		
DAAH2302C0110	WOODWARD GOVERNOR		25 SEP 02	200	\$24,600	\$ 4,920,000	JUN 02	77	\$24,950	\$ 1,921,150	1.40%			
							APR 02	20	\$22,385	\$ 447,700	9.90%	Utilized Fair Market Analysis, Price History, and Price Analysis. ECP enhanced the item and a part number was upgraded this resulted in a price increase from Apr 2002.		
							OCT 96	33	\$24,250	\$ 800,250	1.44%			
DAAH2302C0119	WOODWARD GOVERNOR		2 APR 02	170	\$22,400	\$ 3,808,000	AUG 87	81	\$34,400	\$ 2,786,400	-34.88%	Utilized Learning Curve(Fair market analysis), Price History, PPI, and Commercial sales data. This award price is significantly lower than historical prices.		
							SEP 86	75	\$40,204	\$ 3,015,300	-44.28%			
DAAH2302C0165	Rotor, Turbine Aircraft	AAR DEFENSE	29 MAR 02	180	\$12,687	\$ 2,283,660	AUG 98	63	\$7,202	\$ 453,726	76.16%	Utilized DRI, DCMA Audit Report, Sales History, Catalog Price with 15.99% discount, and procurement history.		
							NOV 95	36	\$7,598	\$ 273,528	66.88%			
DAAH01-02-C-0005	Spare Parts - Various	IFR AMERICAS 1022 W. YORK ST., WICHITA, KS 67215-8935	20 SEP 02			\$ 1,217,052						Utilized Commercial Price List, Fair Market Analysis, DCMA report on Application of Agreed Upon Procedures on IFR Spares Pricing and Audit of Financial Capability.		
DAAH23-02-P-0238		ROSEMOUNT AEROSPACE INC., BURNSVILLE, MN	24 JAN 02	503	\$3,320	\$ 1,669,960	AUG 00	96	\$3,505	\$ 338,480	-0.71%			
			Average Unit Price	268	\$3,639	\$ 975,252	AUG 98	428	\$2,200	\$ 941,600	56.19%	Utilized Fair Market Analysis, Sales History, Catalog Prices, and Price Analysis.		
					\$3,680									
DAAH01-00-D-0069	UPGRADE MULTIFUNCTION CALIBRATORS	FLUKE CORP.	MAR 02	100	\$13,645	\$ 1,364,500	2 SEP 00	82	\$15,920	\$ 687,040	-14.29%	Utilized PPI and Commercial Price List.		
D.O. 0001			13 NOV 01	120	\$13,644	\$ 1,637,280								
D.O. 0004							15 SEP 89	239	\$24,768	\$ 5,845,248	-44.91%	Utilized Historical Prices with escalation, DCMA Respt which used Cost Management System (CMS), Catalog Price, and DRI.		
D.O. 0003														
DAAH23-99-D-0032	ROTOR, TURBINE ENGINE, SPARE PARTS	GE	23 DEC 02		\$93,951	NTE \$50 million						The period of performance for the current contract is Oct 2000 thru Sep 2005. Applying an inflation factor of 2% yields a range of \$39,780 to \$43,057. The negotiated unit price for each year is \$41,207. A bottom line unit price was negotiated and a price analysis performed to justify the cost.		
D.O. 0106		HOKEYWELL INTERNATIONAL, DEFENSE & SPACE	21 SEP 02				Jun-00	104	\$39,000	\$ 4,056,000	5.69%			
DAAH23-00-D-6103	APU, ENGINE GAS TURBINE, AH-64		28 SEP 02		\$41,207	\$ 17,512,975	15-Apr-99	104	\$25,442	\$ 2,645,968	61.96%	Fair Market Analysis and Price Analysis.		
D.O. 0017							N/A	N/A	N/A					
DAAH2302C0077		HAMILTON SUNDSTRAND	20 DEC 01	80	\$15,202	\$ 1,216,160						Enclosure 1		
				SUM TOTAL		\$ 21,309,314				\$ 28,052,665				

CONTRACT #	ITEM	FY 2002 CONTRACT AWARD			FY 2002 PRICE TREND ANALYSIS				CECOM			PRICE HISTORY			UPP % DII	TREND REMARKS
		CONTRACTOR	AWARD DATE	QUANTITY	UNIT PRICE	EXTENDED PRICE	AWARD PRICE	QUANTITY	UNIT PRICE	EXTENDED PRICE	UPP % DII					
QAA007-02-C-0095	Siemens GSM/ISDC D100 EWSD Co. with Monitored SIM	Siemens Rohn Communications Inc.	15-Jun-02	11 LOT	\$718,158	\$78,159	N/A	N/A	N/A							Based on catalog prices with most favored customer prices. Compared to previous buy with the same contract and location, the price was 10% lower. This is due to the fact that the contract was awarded to a new vendor, and the price was based on the current market conditions. The price was also based on the fact that the contract was awarded to a new vendor, and the price was based on the current market conditions.
QAA007-02-C-0010	ANALYTIC-112C Radio	General Dynamics Decision Syst	13-Jun-02	159	\$8,250	\$981,750	26-Jul-01	101	\$5,400	\$545,400	18%					No previous price history. Based on catalog prices and market research of single items.
QAA007-02-C-0004	Radio Backdoor, USN 5871-01-469-7440	BAE Systems	30-Nov-01	288	\$15,468	\$4,453,424	N/A	N/A	N/A							No previous price history. Based on catalog prices and the independent Government Estimate.
QAA007-02-C-0012	Regener Radio	Northrop Grumman Corp.	17-Apr-02	50	\$9,879	\$493,947	N/A	N/A	N/A							No previous price history. Independent Government Estimate based on single items and other sources.
QAA007-02-C-0001	Upgrade of 1000S12 and Warranty	ARMEL AG	17-Jun-02	1	\$2,118,877	\$2,118,877	N/A	N/A	N/A							ECIP increase of 20.02. Inflation factors, original price underbid by contractor. Price Analyst used Learning Curve.
QAA007-02-C-0004	Lease Borehole Systems	Intertek Technology, Inc.	07-Aug-02	7000	\$277	\$1,939,000	08-Sep-00	6700	\$184	\$1,232,800	33%					Inflation factors, original price underbid by contractor. Price Analyst used Learning Curve.
	Lease Borehole Systems	Intertek Technology, Inc.					30-Aug-00	1500	\$184	\$275,800						No previous price history. Based on catalog prices with preferred customer discounts. ACO assisted with data review and verification.
	AK 18 Mantis	Intertek Technology, Inc.	07-Aug-02	2000	\$44	\$87,500	30-Aug-00	800	\$35	\$17,375	28%					
QAA007-02-C-0018	Combination and Miscellaneous Instruments	Honeywell Inc.	25-Sep-02	4	\$240,000	\$1,040,000	N/A	N/A	N/A							
	Combination and Miscellaneous Instruments	Honeywell Inc.	24-Sep-02	2	\$185,000	\$370,000	N/A	N/A	N/A							
	Combination and Miscellaneous Instruments	Honeywell Inc.	24-Sep-02	1	\$110,000	\$110,000	N/A	N/A	N/A							
QAA007-02-C-0018	Directing Sat. Mine	Schaffel Electronics Garfield	27-Jun-02	970	\$2,300	\$2,236,700	10-Apr-00	35	\$2,200	\$77,000						Based on history and current catalog prices. This buy was based on Letter of Offer and Acceptance with Saudi Arabia, U.S. government discount used.
QAA007-02-C-0015	Antenna K6 P/O AS-3015	L-3 Communications	08-Sep-02	17	\$34,558	\$587,483	18-Aug-99	4	\$30,000	\$120,000	40%					Based on market research & independent Government Estimate, empirical method. Price History used.
				SUM TOTAL		\$14,578,954				\$2,281,074						ENCLOSURE 2

CONTRACT #	ITEM	FY2002 CONTRACT AWARD		FY 2002 PRICE TREND ANALYSIS					PRICE HISTORY		UP % DIH	TREND REMARKS
		CONTRACTOR	AWARD DATE	QUANTITY	UNIT PRICE	EXTENDED PRICE	AWARD DATE	QUANTITY	UNIT PRICE	EXTENDED PRICE		
DAAD16-02-C-0009	EOB Suit	MED-ENG SYSTEMS	2-Nov-01									The was an Urgent Requirement for 9/11. An extensive Market Research Analysis was performed that consisted of technical testing, evaluation on candidate systems, and design and manufacturing evaluations. The research resulted in sample devaluation items being purchased and their prices were used for comparisons purposes. The items were purchased on a competitive basis.
				804	\$ 10,760	\$ 8,675,160	12-Sep-07	2	\$ 9,025	\$ 17,250	25%	
								2	\$ 8,690	\$ 17,380		
								2	\$ 8,202	\$ 16,404		
								2	\$ 8,963	\$ 17,926		
								1	\$ 8,784	\$ 8,784		
	Helmet			804	\$ 3,480	\$ 2,797,920	NA					
	Aux Power			804	\$ 570	\$ 458,280	NA					
	SRS-5 Search Light			804	\$ 140	\$ 112,560	NA					
	Visor			804	\$ 350	\$ 281,400	NA					
DAAD16-02-P-0274	Global BCS3-A Cooling System			804	\$ 314	\$ 268,536	NA					Price Analysis performed that consisted of comparing prices between other government agencies and departments.
				804	\$ 2,047	\$ 1,645,788	NA					
DAAD16-02-P-0274	Marine Assault Suit	Kokotal, Inc.	28-Mar-02	1150	\$ 743	\$ 854,450	27-Sep-00	5000	\$ 710	\$ 3,550,000	5%	ENCLOSURE 3
DAAD16-02-P-0274	Sizing Suit			35	\$ 238	\$ 8,330						
	Shipping			1	\$ 270	\$ 270						
				SUM TOTAL		\$ 15,102,894				\$ 3,627,744		

Public Law 105-261

Strom Thurmond National Defense Authorization Act for

Fiscal Year 1999

**SEC. 803. DEFENSE COMMERCIAL PRICING MANAGEMENT
IMPROVEMENT.**

(c) **COMMERCIAL PRICE TREND ANALYSIS-** (1) The Secretary of Defense shall develop and implement procedures that, to the maximum extent that is practicable and consistent with the efficient operation of the Department of Defense, provide for the collection and analysis of information on price trends for categories of exempt commercial items described in paragraph (2).

(2) A category of exempt commercial items referred to in paragraph (1) consists of exempt commercial items--

(A) that are in a single Federal Supply Group or Federal Supply Class, are provided by a single contractor, or are otherwise logically grouped for the purpose of analyzing information on price trends; and

(B) for which there is a potential for the price paid to be significantly higher (on a percentage basis) than the prices previously paid in procurements of the same or similar items for the Department of Defense, as determined by the head of the procuring Department of Defense agency or the Secretary of the procuring military department on the basis of criteria prescribed by the Secretary of Defense.

(3) The head of a Department of Defense agency or the Secretary of a military department shall take appropriate action to address any unreasonable escalation in prices being paid for items procured by that agency or military department as identified in an analysis conducted pursuant to paragraph (1).

(4) Not later than April 1 of each of fiscal years 2000, 2001, and 2002, the Secretary of Defense shall submit to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives a report on the analyses of price trends that were conducted for categories of exempt commercial items during the preceding fiscal year under the procedures prescribed pursuant to paragraph (1). The report shall include a description of the actions taken to identify and address any unreasonable price escalation for the categories of items.

(d) **EXEMPT COMMERCIAL ITEMS DEFINED-** For the purposes of this section, the term 'exempt commercial item' means a commercial item that is exempt under subsection (b)(1)(B) of section 2306a of title 10, United States Code, or subsection (b)(1)(B) of section 304A of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 254b), from the requirements for submission of certified cost or pricing data under that section.